Item 34

Procurement of Natural Gas Via LNG

Statement of Commissioner Timothy Simon

November 1, 2007

Colleagues:

I plan to vote in support of this OIR as modified. I wish to thank President Peevey and his office for working so constructively with my staff to ensure that the OIR reflects my concerns.

My chief concern is that the OIR was asking the wrong question. We do not need to ask how to assess the size of the premium that we are willing to pay for LNG to ensure a secure supply of gas. Instead, we need to assess what is the most cost-effective way to secure a long term reliable supply of gas for California.

As I view international gas markets, several trends are emerging. First, the prices for LNG are now beginning to be set by the price of oil, not by the price of domestic supplies of natural gas. This makes sense, for in many other parts of the world, cars can run on natural gas, and most service stations can refuel these cars. Second, throughout the world, only about 40% of the current re-gasification capacity is used. Third, California is situated on the rim of the Pacific market, and transport costs to California are higher than to any other nation that currently uses LNG.

Given these considerations, it is important for us to consider whether long-term domestic contracts for natural gas offer better ways to ensure a reliable and cost-efficient supply of gas than contracting for LNG. At my request, President Peevey has modified this OIR to ensure that this critical question is addressed.

Let me be clear – my purpose in speaking is to raise a note of caution. In my view, California has chased the phantom of "power reliability" in the past. We all are aware that the electric power bought by the Department of Water Resources to preserve system reliability has led to high costs, both during the electric energy crisis, and continuing to this very day.

I do support LNG, but I believe that it should stand on its own costs and on its ability to compete in the market. I've visited LNG facilities in Yokohama, Japan, a country that has no natural gas and relies 100% on imports. The Japanese have used LNG for a long time and make it work for their economy. Perhaps LNG will work well in California – but I believe this is for LNG suppliers to prove.

At present, natural gas is a pure commodity and the market does not care whether gas travels in pipes or in boats. If gas provided by LNG makes economic sense for California, the market will figure out ways of bringing it to California without the need for a special methodology for evaluating long-term contracts. Sempra Energy is building an LNG terminal in Mexico to import LNG to serve both Mexico and Southern California. Sempra has done this for market reasons without the assistance of a proceeding that will guarantee the recovery of the costs of the gas that they import.

Currently, domestic gas is about half the price of LNG delivered to California. Perhaps the visionaries who wish to build LNG terminals in California are correct that eventually there will be a single global price for all hydrocarbons or that the large supplies available in eastern Asia, Sakhalin Island and Oceania will cause prices of LNG gas to drop. It is my view that markets and market participants are better at addressing these risks and opportunities than regulation.

Although I do not think that LNG gas can compete with domestic gas at this time, this OIR will provide critical information on this market. Gas is gas, whether delivered by pipe or in a boat. Let's keep that in mind as this Rulemaking proceeds.